

Office of Superintendent of Insurance

FY17 Budget Request

**Presented to
Legislative Finance Committee
(Subcommittee B – Executive/General Control)**

October 28, 2015

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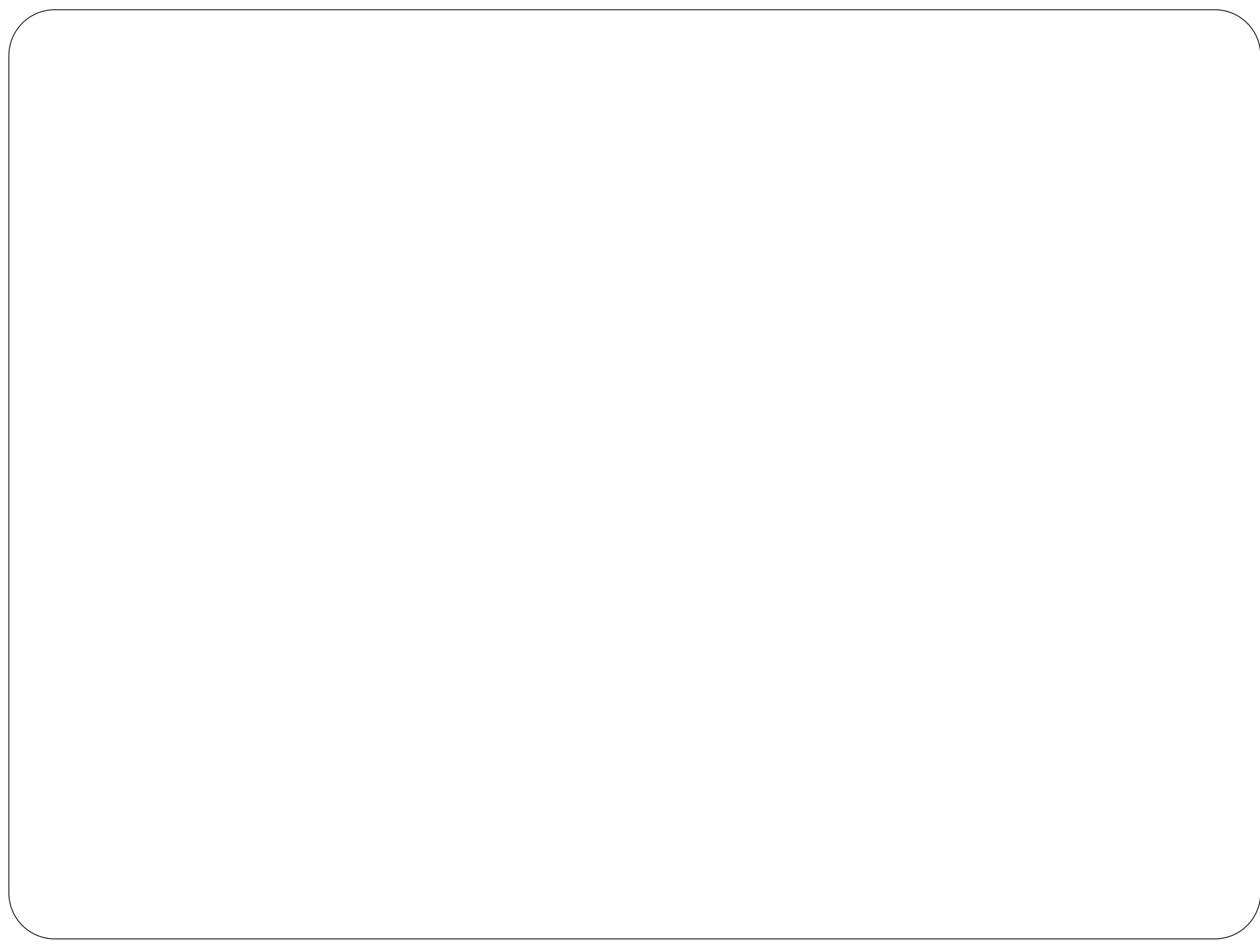


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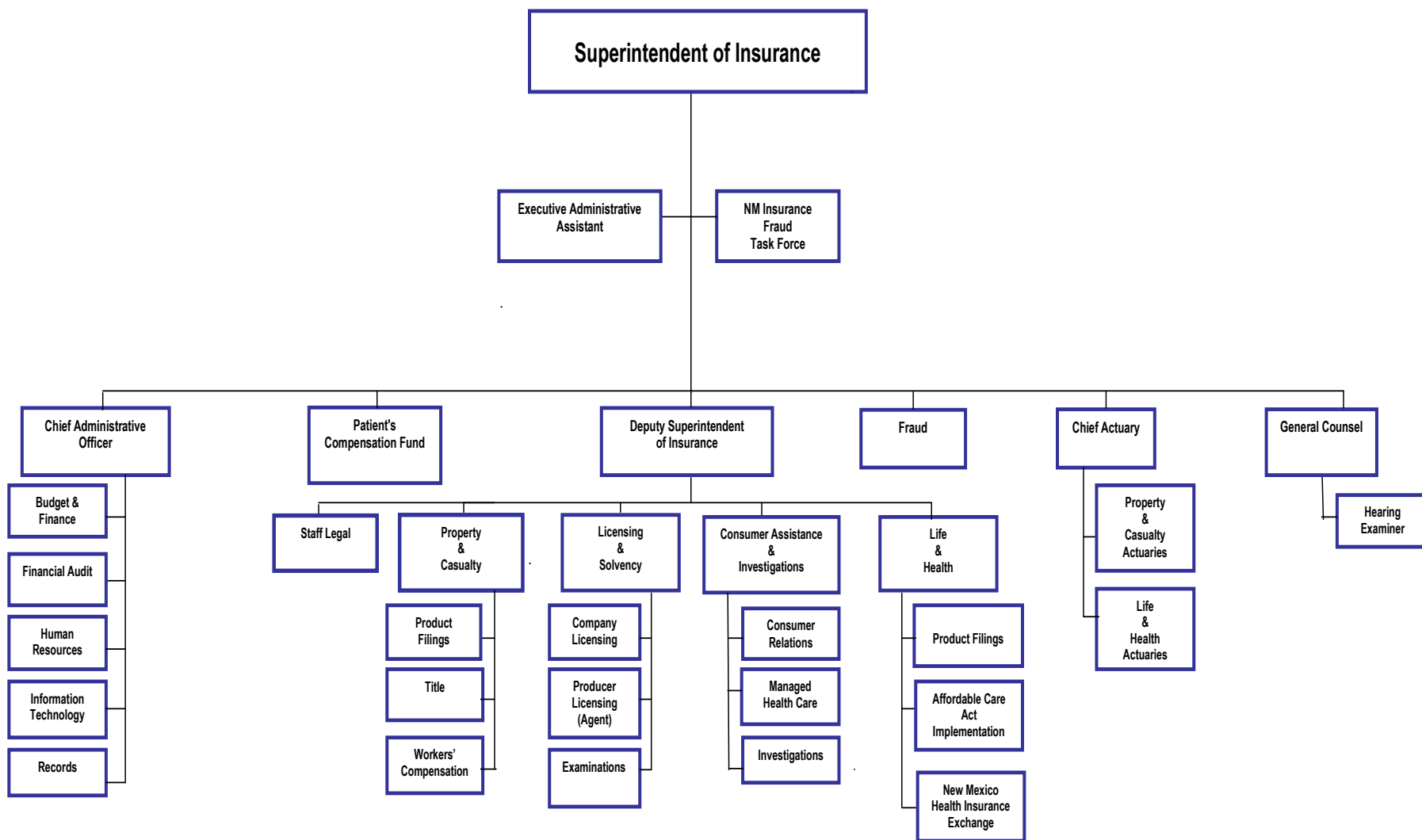
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Legal Authority

The Office of Superintendent of Insurance (OSI) was created on July 1, 2013 -

- Pursuant to the passage of Constitutional Amendment 4 during the 2012 General Election; and
- Subsequent enactment of House Bill 45 (Laws of 2013, Chapter 74) from the 1st Session of the 51st Legislature.
- These actions removed the insurance regulatory function from the Public Regulation Commission (where it was housed as the “Insurance Division”) and placed it in a newly-created adjunct state agency entitled the “Office of Superintendent of Insurance.”
- The enabling legislation also created an Insurance Nominating Committee to appoint the Superintendent of Insurance.

Office of Superintendent of Insurance (OSI) - 44000
Organizational Chart
FY16/FY17



Accomplishments

- **Accreditation** The National Association of Insurance Commissioners (NAIC) Financial Regulation Standards and Accreditation Committee voted to accredit the New Mexico Office of Superintendent of Insurance in August 2015 for accreditation through August 2020 . Accredited state insurance departments undergo comprehensive, independent review every five years to ensure the department meets financial solvency oversight standards. After an in-depth and comprehensive audit and review the Audit Team sent by the NAIC went out of their way to compliment the skill and competence of our Examination team at a hearing before a national committee of national insurance regulators.
- **Health insurance rates** in NM under the Affordable Care Act are in the top 5 lowest in the United States for individual plans premiums.
- **Uninsured for Health Coverage** NM has the 3rd largest reduction of uninsured individuals due to ACA. NM went from 18.5% uninsured to 14.4%, a 4.1% reduction.
- **National Regulatory Ranking** An Independent National Accreditation organization has increased OSI's ranking from a D- (43rd in the nation) 5 years ago, to a B (23rd), for insurance regulatory agencies in the United States.
- **Surplus lines broker premium tax filings** OSI successfully integrated the filings online through the NAIC's OPTins.
- **Annual Financial Audit** First audit as a stand-alone agency completed successfully and timely and OSI is on track to complete its FY15 audit on time as well.

Vision and Mission

AGENCY VISION

The vision of OSI is to become one of the country's leading regulatory agencies with respect to overseeing the insurance industry in New Mexico and ensuring that New Mexico insurance consumers are treated fairly and honestly. In addition, OSI strives to be a leader with respect to the roll out of the Patient Protection and Affordable Care Act (PPACA), commonly called the Affordable Care Act (ACA) or "Obamacare" and ensuring New Mexicans have access to quality and affordable health insurance that maintains a level of minimum standards.

AGENCY MISSION

The mission of the OSI is to provide consumers with convenient access to reliable insurance products which are underwritten by dependable and financially sound companies. The OSI strives to ensure that these companies have a proven history of fair and reasonable rates and are represented by trustworthy and qualified agents. The OSI is committed to consumer protection and to the deterrence and prosecution of insurance fraud.

Initiatives

- **Initiative 1:** Continue to work on the organizational structure to ensure that staff have been properly placed, are sufficient to service the industry and have continuing educational opportunities to hone their skills to be more proficient in carrying out their duties. This would include the establishment of the Actuarial Bureau by the end of the fiscal year.
- **Initiative 2:** By the end of the second quarter of FY 2017 (December 31, 2016), go live with the new paperless system which will be more efficient to process and track transactions, along with utilizing an online system for licensing and renewals.
- **Initiative 3:** Monitor regulatory efficiency in an effort to minimize regulatory costs.
- **Initiative 4:** Monitor regulatory enforcement and decisions to determine their impact on the industry with respect to higher costs for consumers in an effort to maintain reasonable rates and minimize rate increases.
- **Initiative 5:** Continue to ensure that insurance transactions and consumer grievances are processed timely, that consumers are provided education on insurance products and their rights and that they are dealing with dependable and financially sound companies while reducing insurance fraud.

Agency Description

Employees and Facilities

- **FTE** The OSI has one hundred twenty-seven full-time equivalent positions (FTE) authorized by the General Appropriations Act which includes seventeen federally funded grant positions and nine positions funded through a memorandum of understanding (MOU) with the New Mexico Health Insurance Exchange (NMHIX). Also included are two FTE that are funded by the Patient's Compensation Fund (PCF). Six of the one hundred twenty-seven FTE are currently GOVEX positions. OSI continues to work with the New Mexico State Personnel Office (NMSPO) and the Department of Finance and Administration (DFA) to hire the positions authorized and/or convert positions to the proper classifications needed for insurance operations.
- **Office Space** A majority of the staff are currently located in the old PERA Building in Santa Fe. In February 2015, OSI expanded its office space and established an office in Albuquerque which will houses the federally funded and MOU positions and possibly the PCF positions when they are filled. OSI is also looking to expand further in Albuquerque to house its Fraud Bureau. We also have a satellite office in Las Cruces for one employee of the Fraud Bureau.

Organizational Units

Company Licensing

The Company Licensing Bureau licenses insurance companies and other risk-bearing insurance entities. Pursuant to this, the bureau receives, reviews and renders determinations on applications from insurance companies that want to enter the New Mexico insurance market. The bureau oversees almost \$500 million in insurance company deposits held with Century Bank and the State Treasurer's Office for the protection of New Mexico policyholders. The bureau also reviews and processes documentation submitted by insurance companies for acquisitions, re-domestications, mergers and name changes. Lastly, the bureau is responsible for the collection of premium taxes and policy filings from surplus lines brokers.

- **FY 15 Statistics:**
 - Active insurance companies and insurance related companies: 2,005
 - Total Securities Held with Custodial Bank: \$477.6 M
 - Total Surety Bonds Held with State Treasurer: \$19.8 M

Organizational Units (Continued)

Producer (Agent) Licensing

The Producer (Agent) Licensing Bureau licenses approximately 130,000 insurance professionals, as well as, business entities. This includes insurance agents, agencies, brokers, adjusters, third party administrators, consultants, bail bondsmen, solicitors and motor clubs, as well as limited license insurance vendors such as cell phone sales agents and travel agents. To protect consumers, the bureau determines the qualifications and eligibility of applicants; approves pre-licensing and continuing education courses; tracks continuing education credits; and processes license applications, renewals and the appointment of agents by insurance companies.

- **Performance Measure:** Percent of producer applications, appointments and renewals processed within ten business days.

FY 17 Request: 99.00%

FY 16 Target: 99.00%

FY 15 Results: 99.88%

FY 15 Target: 99.00%

FY 14 Results: 99.92%

- **FY 15 Statistics:**
 - Total Active Licenses in New Mexico (Resident): 8,581
 - Total Active Licenses in New Mexico (Non-Resident): 118,692
 - Number of Company Appointments: 417,179
 - Number of Appointment Cancellations: 203,072
 - Number of Continuing Education Transactions: 6,321
 - Number of Renewals: 870,960
 - Number of Business Entity Licenses Issued: 1,943
 - Number of Producer Licenses Issued: 40,707
 - Number of Affiliation Transactions: 21,700

Organizational Units (Continued)

Examinations

The Examinations Bureau reviews insurance company financial statements filed with the OSI. The bureau also conducts periodic financial examinations, as well as ad hoc specialized market conduct and target financial examinations of insurance companies and agents. The Chief Examiner coordinates an internal solvency review team, consisting of financial analysts and actuaries, to review annual and quarterly financial statements filed by insurance companies domiciled in New Mexico and elsewhere and to plan examination activity.

- **Performance Measure:** Percent of domestic company examination reports adopted within eighteen months of the examination period.

FY 17 Request:	100.00%
FY 16 Target:	100.00%
FY 15 Results:	100.00%
FY 15 Target:	100.00%
FY 14 Results:	87.50%

- **Performance Measure:** Percent of insurance division interventions conducted with domestic insurance companies when risk-based capital is less than two hundred percent.

FY 17 Request:	Discontinue
FY 16 Target:	100.00%
FY 15 Results:	100.00%
FY 15 Target:	100.00% New 2015 Measure (Wording Revised from Prior Fiscal Year)

- **Performance Measure:** Percent of Office of Superintendent interventions conducted with domestic insurance companies when risk-based capital is less than two hundred percent.

FY 17 Request:	100.00%
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Organizational Units (Continued)

Life & Health Product Filings

The Life & Health Product Filing Bureau reviews and renders determinations on the rates and coverage provisions filed by insurance companies for products pertaining to health, life, annuities, long-term care, Medicare supplement and credit life and disability, and other miscellaneous correlated filings. The bureau approves or disapproves such filings where required, based on their compliance with state and federal insurance statutes and regulations, New Mexico insurance bulletins, NAIC guidelines, and with OSI policies and procedures. As a member of the Interstate Insurance Compact, New Mexico participates in multi-state reviews of many life and annuity product filings.

- **Performance Measure:** Percent of form and rate filings processed within ninety days within the Life & Health Bureau.

FY 17 Request: 97.00%

FY 16 Target: 97.00%

FY 15 Results: 96.00%

FY 15 Target: 99.00%

FY 14 Results: New 2015 Measure (Wording Revised from Prior Fiscal Year)

- **FY 15 Statistics:**
 - Life 472
 - Health 887
 - Annuity 257
 - Medicare Supplement 323
 - Long Term Care 187

Organizational Units (Continued)

Property/Casualty Product Filings/Workers' Compensation

The Property/Casualty Product Filing Bureau reviews and renders determinations on the policy forms filed by insurance companies for products pertaining to automobile, homeowners, workers' compensation, and other assorted products and on the rates filed for products in non-competitive markets such as medical malpractice and credit. The bureau approves or disapproves such filings, where required, based on their compliance with insurance statutes, regulations, bulletins, case law and with OSI policies and procedures. In the current fiscal year, the Workers' Compensation Bureau will be moved within the Property/Casualty Product Filing Bureau and its performance measure will be eliminated in Fiscal Year 2016. The Workers' Compensation section monitors the New Mexico Workers' Compensation Assigned Risk Pool, handles complaints by employers regarding their workers' compensation class code assignments and premiums, oversees the Safety Bonus Program and represents the OSI in other matters relating to Workers' Compensation.

- **Performance Measure:** Percent of form and rate filings processed within ninety days within the Property & Casualty Bureau.

FY 17 Request: 99.00%

FY 16 Target: 99.00%

FY 15 Results: 100.00%

FY 15 Target: 99.00%

FY 14 Results: New 2015 Measure (Wording Revised from Prior Fiscal Year)

Organizational Units (Continued)

Property/Casualty Product Filings/Workers' Compensation (Continued)

- **Performance Measure:** Percent of employers whose workers' compensation accident frequency is reduced through counseling, advice and training.

FY 16 Target: Discontinued

FY 15 Results: 51.06%

FY 15 Target: 75.00%

FY 14 Results: 53.85%

- **FY15 Statistics:**
 - Formal Complaints: 11
 - Workers' Compensation Inquiries: 242
 - Appeal Board Hearings: 0

Organizational Units (Continued)

Consumer Assistance

The Consumer Assistance Bureau receives, processes and resolves complaints and inquiries from consumers about insurance rates and claim-handling for all insurance products other than those involving managed health care. The bureau alerts the Investigations Bureau of situations where a complaint reveals a potential violation of insurance statutes and regulations by an insurance company or other insurance licensee.

- **FY 15 Statistics:**
 - Life and Health Complaints: 134
 - Property and Casualty: 410
 - Other: 58

Investigations

The Investigation Section investigates concerns arising from consumer complaints and other sources to determine whether a licensed or unlicensed insurance company, insurance agent, or bail bondsmen, has violated insurance statutes or regulations, and assists staff attorneys in taking appropriate enforcement actions.

Organizational Units (Continued)

Managed Health Care

The Managed Health Care Bureau administers and enforces New Mexico's Patient Protection Act and related regulations. The bureau handles complaints and inquiries from managed health care consumers and conducts outreach activities throughout the state to inform consumers and health care providers of their rights under the Patient Protection Act. The bureau reviews external grievance appeals, proposes rule amendments and also takes appropriate enforcement actions where merited.

- **Performance Measure:** Percent of internal and external insurance-related grievances closed within one hundred eighty days of filing.

FY 17 Request:	98.00%
FY 16 Target:	98.00%
FY 15 Results:	85.59%
FY 15 Target:	98.00%
FY 14 Results:	96.60%

- **Performance Measure:** Number of managed healthcare outreach activities conducted annually.

FY 17 Request:	110.0
FY 16 Target:	100.0
FY 15 Results:	121.0
FY 15 Target:	120.0
FY 14 Results:	New 2015 Measure (Wording Revised from Prior Fiscal Year)

Organizational Units (Continued)

Insurance Fraud

The Insurance Fraud Bureau investigates and prosecutes, through state district courts, insurance fraud committed by insurance policyholders and applicants, medical providers, third party claimants and other perpetrators of white-collar insurance fraud crimes. The bureau collaborates with state, local and federal law enforcement and regulatory agencies in these efforts. Its performance measure will be revised in Fiscal Year 2016.

- **Performance Measure:** Percent of insurance fraud bureau complaints processed and recommended for either further criminal actions/prosecutions or closure within sixty days.

FY 17 Request: 88.00%

FY 16 Target: 88.00%

- **Performance Measure:** Percent of insurance fraud bureau complaints processed and recommended for either further administrative action or closure within sixty days.

FY 16 Target: Discontinued (Reworded)

FY 15 Results: 60.33%

FY 15 Target: 88.00%

FY 14 Results: 72.11%

- **FY 15 Statistics:**

- Number of Cases: 542

Organizational Units (Continued)

Title Insurance

The Title Insurance Bureau regulates the title insurance industry through rate-making and rule-making hearings held every odd numbered year. The Bureau collects and analyzes the annual agent and underwriter statistical reports, and the agent audit procedures. The Bureau annually assesses the insurers based on annual budgeting and maintenance. Periodically the Bureau performs on-site title plant inspections, affiliations, appointments, bank reconciliations, no-pay no-service documentation, and premium calculations. The Bureau performs the investigation of marketing compliance within the regulations. The Bureau regulates more than 75 licensed title insurance agents and underwriters in New Mexico. The bureau investigates complaints, allegations of defalcations, marketing non-compliance, and other infractions by title agents and insurers. The Bureau coordinates with the Investigation and Fraud Bureaus for appropriate enforcement actions and reviews all "Agreed Upon Procedures" for irregularities and investigates same for compliance.

- **FY 15 Statistics:**
 - Assessments & Penalties: \$675 K
 - Inquiries Closed: 349
 - Complaints Closed: 3
 - Inspections: 116

Organizational Units (Continued)

Financial Audit

The Financial Audit Bureau is responsible for processing and auditing premium tax filings for the approximately 2000 insurance companies that write policies in New Mexico. All insurers authorized to transact business in New Mexico and all property bondsmen, self-insurers, title companies and risk retention groups are subject to pay premium tax on a quarterly basis. Policy filing fees for life and health insurance companies are processed in this office. The due dates for life and health filing fees are governed by policy changes and new submissions. The fees are determined by the type of policy or submission. Policy filing fees for property and casualty insurance companies are also processed in this office. Property and casualty filing fees are due annually and are determined by premiums written in applicable lines of business. Financial Audit is responsible for receipting the Examination Bureau's annual statement filing fees and the Fraud Bureau's annual fraud assessment.

- **FY 15 Statistics:**
 - Premium Taxes & Surtaxes Collected: \$255.9 M
 - Assessments and Fees: \$2.1 M
 - Refunds(Paid Out): \$14.4 M
 - Penalties & Fines: \$625 K

Organizational Units (Continued)

Patient's Compensation Fund

While its primary function is the regulation of insurance, the OSI also administers the Patient's Compensation Fund (PCF), which is a medical malpractice insurance risk-assuming function mandated by the Medical Malpractice Act. OSI has requested an additional FTE for FY17, an Executive Secretary & Administrative Assistant-O, to assist in overseeing the functions of the fund.

Actuarial Bureau

The Actuarial Bureau performs and oversees all actuarial functions within OSI, including the review and approval of rate filings, and the monitoring of rate trends, rating practices and the competitiveness of insurance markets in New Mexico. The Bureau also perform tasks as determined by the Superintendent that would benefit from actuarial expertise.

Administration

Administration includes the Superintendent of Insurance, Deputy Superintendent of Insurance, General Counsel, OSI Legal Staff, the Chief Administrative and Chief Financial Officers, Budget and Finance, Human Resources, Public Information, Information Technology and Records which provide all administrative support to OSI and its day-to-day operational functions.

Organizational Units (Continued)

ACA (Affordable Care Act) Implementation

- The Office of Superintendent of Insurance is the recipient of federal grants to support health insurance consumer assistance programs (HICAP) and effective health insurance rate review.
- The HICAP program provides for a Health Insurance Ombudsman and subcontractors to respond to inquiries from New Mexicans who either need assistance finding insurance that will cover them or their families, or who need information about how the Affordable Care Act (ACA) has changed what their insurers must provide. Specific complaints are referred to other areas of OSI.
- By far the larger federally funded program is for effective rate review. Under this program, OSI plays a key role in the implementation of ACA in New Mexico:
 - In addition to its own statutory role under New Mexico law, NM OSI serves as the primary health insurance rate reviewer implementing federal rate review regulations, e.g., heightened scrutiny for requests above 10%.
 - OSI provides an opportunity for New Mexicans to become aware of and comment on proposed rate increases and rates for new Health plans via both a website, <http://www.nmhealthratereview.com>, and extensive public outreach conducted both in-person at health fairs throughout the state and radio advertising. The website also implements the requirements of SB 208 for heightened public information about rate requests.
 - OSI led the creation of a new 2017 Essential Health Benefits benchmark for New Mexico.
 - Guidelines for submission of both qualified health plans (QHPs) and dental plans meeting ACA requirements for 2015 and submission and review processes for QHPs were developed and implemented for the first time. It is notable that much of this effort had to be carried out prior to the passage of the statute creating the NMHIX and thus required substantial flexibility and initiative.
- Through a memorandum of understanding (MOU) with the New Mexico Health Insurance Exchange (NMHIX), NMHIX serves as the body carrying out all regulatory and quasi-regulatory activity involving the health insurance exchange.

Organizational Units (Continued)

ACA (Affordable Care Act) Implementation (Continued)

2015 Health Plan Road Show Update

- Key focus is to educate and inform consumers, agents, and elected officials of changes to the 2016 Individual Health Plan marketplace
 - BCBS withdrawal and plan types changing
 - Christus, Molina, NM Health Connections, and Presbyterian expanding their networks outside of NM, putting teams in place to coordinate care and help with patient transitions
- Superintendent of Insurance, in partnership with beWellnm CEO and team, presenting to 13 cities across NM
 - Silver City, Deming, Las Cruces, Las Vegas, Hobbs, Carlsbad, Roswell, Portales, Clovis, Santa Fe, Albuquerque, Farmington, and Gallup
- Outreach to over 3600 elected officials, agents, and businesses via mail, email, and phone
 - To-date attendance over 100 elected officials, agents, media, enrollers, and public in rural cities
 - Upcoming Albuquerque meeting at CNM Workforce Training has over 100 attendees expected
- Significant exposure via radio, television, and print media interviews
 - 8 print media outlets
 - 8 radio and 5 television outlets

Organizational Units (Continued)

Insurance Nominating Committee

The New Mexico Insurance Nominating Committee (Committee) was created by Laws 2013, Chapter 74, to appoint and if necessary, remove the Superintendent.

The Committee consists of four members appointed by the governor, four members appointed by the New Mexico Legislative Council and a ninth member appointed by the other eight committee members.

During this past fiscal year, the committee met twice on October 23, 2014 and May 16, 2015. Meeting discussions included proposed legislation, updates on health care plans and rates, appointment process and compensation of Superintendent of Insurance, transition updates including accreditation and committee member appointments.

The current Superintendent's term expires December 31, 2015.

Appointments to the Committee and scheduling a meeting to appoint a Superintendent are pending.

The mileage and per diem for the Committee is funded through the OSI budget.

Overall FY17 Budget Request Numbers

- OSI adhered to the budget request instructions and as an adjunct state agency, ensured the agency requested a properly funded budget in order to execute its regulatory duties imposed on it by the New Mexico Insurance Code.
- Additional staff are requested for General Counsel and Staff Legal Counsel operations and oversight of the Patient's Compensation Fund (PCF).
- OSI continues to work on revising its organizational structure and to improve OSI's functional and managerial structure which is reflected in its organizational chart.
- OSI receives no general fund support.
- All funds are derived from Other State Revenue, Other Transfers, Federal Funds and Fund Balance.

Increase over Operating Budget - \$2,434,400

- The agency is requesting a total budget of \$39.6 million from all funding sources of which \$8.2 million is shown as a duplication, but must be shown in this manner to comply with Generally Accepted Accounting Principles (GAAP).
 - The request includes this \$8.2 million in Other Revenue, which is \$13.3 thousand or 0.2% above the FY16 operating budget.
This Other Revenue, which is derived from entities that the agency regulates, is the primary funding source that provides for the operations of OSI with a small portion resulting from Fund Balance transferred from the Patient's Compensation Fund in administering the statutory responsibilities.
 - The request also includes \$1.2 million from restricted fund balances from the Fraud Fund and Title Insurance Maintenance Fund and Patient's Compensation Fund.
 - Also, this request includes just under \$2.1 million in regular federal funds and \$510.0 thousand in MOU related revenue that is derived from the New Mexico Health Insurance Exchange as federal indirect funds.

FTE/Personnel

Total Authorized FTE: 127.0

Total Authorized FTE: 101.0 (not including federal positions)

Filled Positions: 71.0 (not including federal positions)

Current Vacancies: 30.0 (not including federal positions)

Note: 6 positions are being contracted out: human resources, budget, 2 receptionists, 1 paralegal, and 1 secretary.

Total Exempt positions: 6.0 (all filled)

Federal Positions: 26.0 (Note: In FY18, OSI will request funding to support some of the positions no longer supported by federal funds.)

Filled Federal Positions: 15.0

Current Federal Vacancies: 11.0

Personal Services & Employee Benefits Summary

\$648,700 Increase over Operating Budget (Note: A 2% Vacancy Rate Applied by OSI)

- 147.9 thousand is attributed to the addition of three FTE that were added to the base.
- 1.0 FTE requested within the Legal Staff Bureau to prepare the numerous rulemakings required by statute which are back logged due to an increase in workload as well as a staff shortage.
- 1.0 FTE requested for the General Counsel, because additional legal expertise is needed in this area due to the significant workload.
- 1.0 FTE was requested for the Patient's Compensation Fund (PCF) area to provide administrative support for the fund due to the increasing responsibilities and transactions.

Personal Services & Employee Benefits Detail

Personal Services/Employee Benefits - 2% Vacancy Rate Applied by OSI

Other Increases:

- Group Insurance costs - \$64.8 thousand.
- The FTE associated with the Health Insurance Exchange were not fully budgeted since the MOU budget is limited in the amount authorized to expend by fiscal year. OSI is working with the New Mexico Health Insurance Exchange to correct this issue and revise the MOU.

Personal Services & Employee Benefits Vacancies

Following is a status of the vacancies as of October 26, 2015

General Insurance Operations (not including term (grant) positions):

- 30 vacancies; 6 of the positions are being filled with contracted help (HR, budget, 2 receptionists, 1 secretary and 1 paralegal)
- 4 positions are in the interview process and depending upon successful offers/acceptance, will start likely within a month and a half. (Note: many vacant positions have been filled from within OSI which in turn creates vacancies in other areas.)
- 3 jobs are currently being posted through SPO's Website.
- 7 jobs are expected to be posted through SPO's Website within the next 2 months.
- 2 people are expected to retire by the end of the year which will create additional vacancies.
- 16 other positions - the paperwork is either with SPO or OSI staff and is in the process of completing/reviewing paperwork for posting of the positions

Federal/Grant Positions (Term)

- 11 vacancies from newly federally funded positions including from an MOU with the Health Insurance Exchange. Most of these positions have already had the paperwork completed and reviewed by SPO and are expected to be posted in the next month or so. Due to funding levels and other criteria, some positions may not be filled.

The expectation is that nearly all positions will be filled by June 30, 2016.

IT'S CRUCIAL TO CONSIDER THE RECENT ACTIVITY THAT IS TAKING PLACE AND PROPERLY FUND POSITIONS.

Contractual Services – Summary/Detail

\$278,300 Increase over Operating Budget

- The increase is attributed to various needs to include additional outside legal counsel, expertise and technical assistance, temporary assistance, higher annual audit fees and audit of the Workers' Compensation Uninsured Employee's Fund.

Other Costs – Summary/Detail

\$973,000 Increase over Operating Budget

- The increase in other costs affects various account codes throughout the category and is primarily attributed to an increase of \$448.5 thousand over the operating budget for estimated medical malpractice claims/judgments and court ordered settlements within the Patient's Compensation Fund and the cost to cover a Medical Review Panel's recording and reporting fees.
- In FY16, OSI submitted a budget adjustment request of \$5 million due to a \$10 million dollar court-ordered settlement that had to be paid.
- Additional budget adjustment request authority for FY16 is being requested in excess of the \$5 million currently authorized, which has already been utilized. This is needed to cover additional court-ordered settlements.
- Budget Increase authority of \$5 million for court ordered settlements and expenses related to the Medical Malpractice Act is being requested for FY17, to ensure PCF has sufficient funding to cover these types of settlements.
- The other account codes are in-line with either the FY15 actual expenditures or the FY16 operating budget.

Other Costs – Summary/Detail

\$973,000 Increase over Operating Budget (Continued)

- The increases of \$303.1 thousand are for the Fraud Bureau (IFB). Over the last two years, the fraud bureau has undergone internal and external reviews for sufficiency as a statewide investigative and prosecutorial unit in its efforts to gain and maintain certification. Additional costs are related to the security and integrity of the evidence room, additional safety equipment for its agents who are commissioned peace officers, and rent of a new facility for the Fraud Bureau operations. These additional costs are attributed to this increase in the request as the IFB is crucial in preventing and prosecuting fraud that cost millions of dollars and raises insurance rates for the average New Mexican.
- The balance of \$221.4 thousand are for additional travel related expenditures, subscriptions and dues and employee education and training which are also associated with requirements for job related functions. Also, the increase includes supplies such as information technology and general office supplies which are going to be needed for new employees; additional postage due to an increase in volume resulting from an internal legal mandate requiring certain correspondences to be sent certified due to legal hearings; promotional items which are given out at mission critical outreach events in an effort to assist consumers regarding insurance initiatives; replace outdated furniture and cubicles for staff to have suitable working environments and to make the office areas more functional and to accommodate additional staff and the costs for software licenses.

Patients' Compensation Fund

- 1 Additional FTE: To provide administrative support for the fund due to the increasing responsibilities and transactions.
- Increase of \$448.5 thousand for medical malpractice claims/judgments and court ordered settlements.

IT Special Appropriations – Summary/Detail

Information Technology Special Appropriation

- OSI IT Special Appropriation set to expire on June 30, 2017. OSI is requesting language to extend the appropriation until June 30, 2018.
- Appropriation is the second appropriation funded for the purpose of establishing a paperless, web-based environment known as the OSI Paperless, Web-Based Environment Project.
- Allows the agency to migrate the insurance IDEAL system into the State Based System (SBS) which provides tools and products to states that are promulgated by the National Association of Insurance Commissioners (NAIC).
- SBS is used by more than thirty-two other states in processing insurance transactions and which supports the National Insurance Producers Registry (NIPR).
- This project has an anticipated completion date of December 2017 and currently stands at approximately 55 percent complete.
- OSI has available just under \$334.0 thousand to utilize on this project, with an additional \$500.0 thousand needing to be certified by the Department of Information Technology (DoIT), which occurred on October 28, 2015.

Revenues - Overall

- OSI receives no general fund support, although we recognize OSI is still funded by state and federal funds.
- Revenues for the agency are derived from various insurance entities through premium and surtaxes, fines, penalties, license fees and etcetera.
- Revenue used to support the budget are derived from Other State Revenue, Other Transfers, Federal Funds and Fund Balance.
- The OSI collected slightly over \$297.0 million in annual revenues in FY15, an increase of nearly \$75 million from FY14. Typically, over 90% of collections are transferred to various funds including the state general fund, the fire protection fund, the law enforcement protection fund and the Carrie Tingley fund. The balances are transferred to various funds within OSI or refunded.
- Approximately 3% of the collected revenues is used to fund the operations of OSI.
- The various funds that also help support OSI include:
 - The Patient's Compensation Fund (PCF), which is funded from fund balance derived through annual premium surcharges collected from health care providers and investment interest earned on these surcharges;
 - The Insurance Fraud Fund which is derived from premium taxes and fees levied on insurers; and
 - The Title Maintenance Fund, which is funded by assessments and fees levied on title insurers.
- In FY17, OSI will utilize \$1.2 million from restricted fund balances transferred in past years from the Title Insurance Maintenance Fund and the Insurance Fraud Fund into the Insurance Operating Fund. These funds are restricted by statute, therefore the OSI has elected to utilize these funds to cover budget increases rather than request additional funding.

Sources of Revenues & Distributions

Sources of Revenues:

- Licenses, Renewals and Appointments
- Premium Taxes
- Fines and Penalties
- Surplus Line Taxes
- Insurance Premium Surtaxes
- Assessments
- Patients' Compensation Fund
- Continuing Education
- Miscellaneous (i.e. copies)

Distributions/Transfers

- State General Fund
- Fire Protection Fund
- Law Enforcement Protection Fund
- Carrie Tingley
- Insurance Operating Fund
- Public Election Fund (Discontinued as of July 1, 1014)

Revenue Collections and Distributions

Fiscal Years 2011 – 2015

	FY2011 **	FY2012 **	FY2013 **	FY2014	FY2015
REVENUE PROCESSED (Less Dishonored Checks & Credits)	\$223,617,723.18	\$227,204,011.39	\$205,737,878.63	\$222,087,504.92	\$297,007,293.81
AGENCY FUND ACCOUNTS (Direct)					
TITLE INSURANCE	\$0.00	(\$596,351.29)	(\$133,591.78)	(\$682,200.00)	(\$675,000.01)
PATIENT'S COMPENSATION FUND	\$0.00	(\$12,188,092.37)	(\$11,134,060.45)	(\$12,433,743.99)	(\$12,220,654.96)
INSURANCE FRAUD FUND	(\$667,078.15)	(\$1,086,369.14)	(\$2,008,959.33)	(\$656,005.13)	(\$1,378,596.81)
INSURANCE LICENSING CONTINUING EDUCATION FUND	(\$109,103.10)	(\$98,563.60)	(\$97,167.00)	(\$95,243.00)	(\$97,454.63)
WORKING CAPITAL- REPRODUCTION FUND	(\$23,537.53)	(\$57.00)	(\$3,210.15)	(\$42,837.33)	(\$54,763.66)
LESS					
REFUNDS	\$0.00	\$0.00	\$0.00	(\$989,417.85)	(\$14,413,846.00)
SPECIAL APPROPRIATIONS/OTHER	\$0.00	\$0.00	\$0.00	(\$1,340,000.00)	(\$100,000.00)
ADJUSTMENTS & TRANSFER *** /****	\$0.00	\$0.00	\$0.00	(\$100,000.00)	\$33,380.59
FUND DISTRIBUTIONS					
INSURANCE OPERATION FUND	(\$8,947,111.36)	(\$9,338,127.58)	(\$9,619,969.35)	(\$10,496,238.79)	(\$11,085,874.58)
FIRE PROTECTION FUND	(\$67,452,200.20)	(\$68,576,625.55)	(\$71,006,406.59)	(\$74,345,228.77)	(\$77,910,548.11)
CARRIE TINGLEY	(\$25,673.00)	(\$27,514.00)	(\$30,220.00)	(\$39,573.00)	(\$33,151.00)
LAW ENFORCEMENT FUND	(\$14,733,311.42)	(\$13,537,337.32)	(\$8,280,806.75)	(\$9,041,040.93)	(\$13,220,274.74)
GENERAL FUND **	\$131,659,708.42	\$121,754,973.54	\$103,423,487.23	\$111,825,976.13	\$165,389,637.90

** Unaudited Numbers by OSI

*** Includes transfers for Voter Election Fund. Note: No longer required by Statute for FY 15

**** Pending Refund

PREMIUM TAX AND SURTAX FOR INSURANCE	FY2011	FY2012	FY2013	FY2014	FY2015
PREMIUM TAX (Insurance)	\$109,832,775.93	\$98,392,182.53	\$78,752,491.94	\$87,293,791.00	\$127,100,552.98
SURTAX (Health Insurance)	\$36,061,780.31	\$32,686,568.82	\$30,445,982.31	\$30,456,607.77	\$46,383,665.41
PREMIUM TAX (Fire Fund)	\$60,080,801.97	\$59,852,444.31	\$62,635,341.59	\$65,824,699.18	\$68,087,274.15
Totals	\$205,975,358.21	\$190,931,195.66	\$171,833,815.84	\$183,575,097.95	\$241,571,492.54

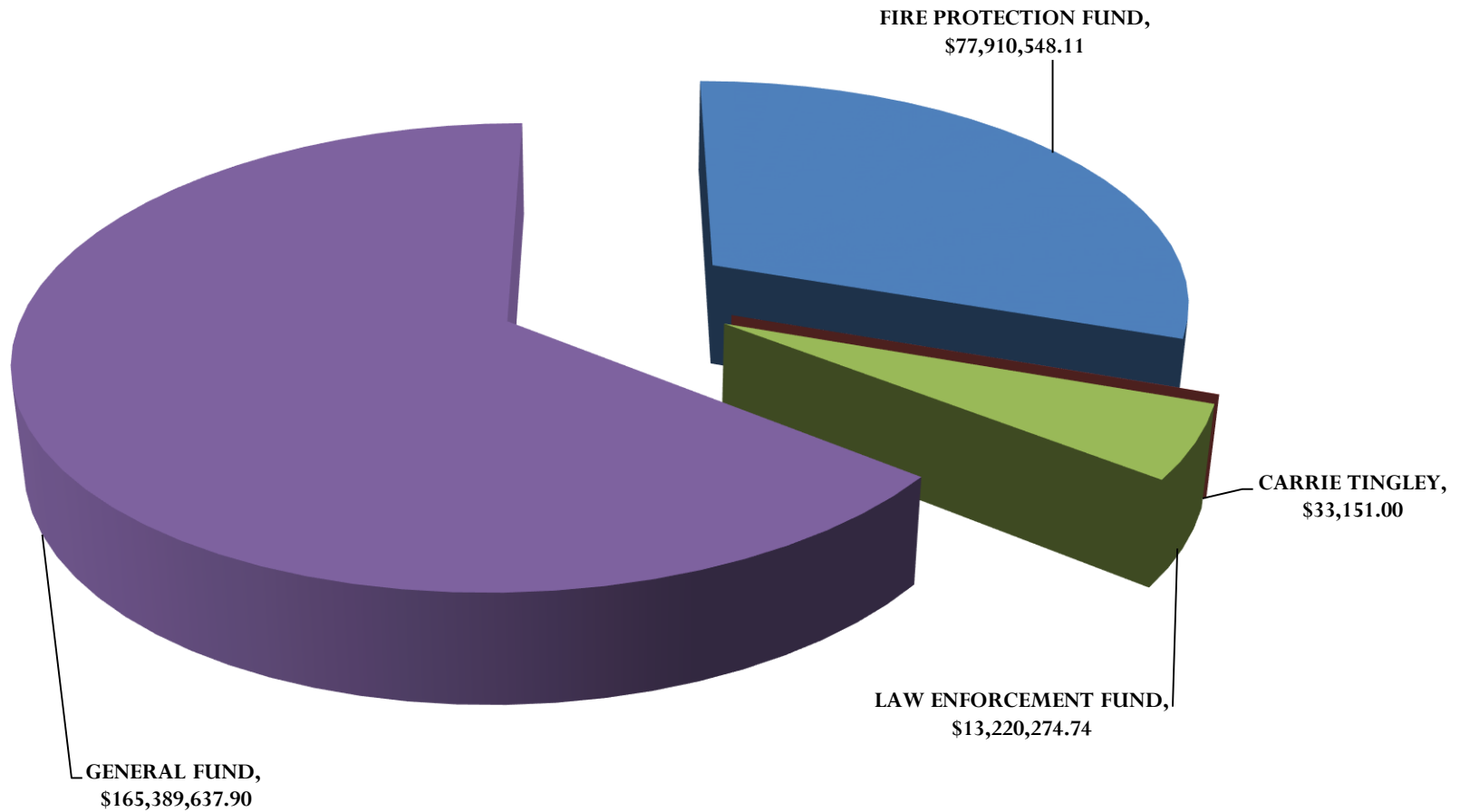
Revenues Processed Fiscal Years 2010 - 2015

TYPE OF REVENUE	FY10	FY 11	FY 12	FY 13	FY 14	FY 15
Licenses, Renewals & Appointments	\$16,243,529.85	\$16,758,130.50	\$19,112,366.71	\$19,178,370.50	\$20,798,640.54	\$22,877,205.16
Premium Taxes	\$175,777,003.78	\$169,341,739.67	\$158,244,626.84	\$141,387,833.53	\$153,118,490.18	\$208,142,416.69
Fines & Penalties	\$310,673.68	\$231,044.54	\$958,488.66	\$843,126.59	\$819,303.56	\$624,573.76
Surplus Line Taxes	\$2,445,902.27	\$2,704,626.30	\$2,757,858.76	\$2,689,433.16	\$2,983,228.42	\$3,187,291.87
Insurance Premium Surtax	\$36,876,183.34	\$36,049,652.90	\$32,686,568.82	\$30,445,982.31	\$30,456,607.77	\$47,747,166.26
Assessments	\$1,365,835.97	\$810,861.95	\$1,682,720.43	\$2,142,551.11	\$1,338,205.13	\$2,053,596.82
Patient's Compensation Fund	\$12,733,122.99	\$10,855,690.27	\$12,188,092.37	\$11,134,060.45	\$12,433,743.99	\$12,220,654.96
Continuing Education	\$107,803.40	\$106,418.10	\$98,563.60	\$97,167.00	\$95,243.00	\$97,454.63
Deductions *	(\$3,528,756.34)	(\$3,038,003.51)	(\$499,326.16)	(\$634,670.34)	\$0.00	\$0.00
Miscellaneous	\$55,316.32	\$23,389.38	\$55,113.67	\$3,780.15	\$44,042.33	\$56,933.66
Grand Total:	\$242,386,615.26	\$233,843,550.10	\$227,285,073.70	\$207,287,634.46	\$222,087,504.92	\$297,007,293.81

Note: * Each revenue category is net of dishonored checks, credits and adjustments for FY 14 - 15.

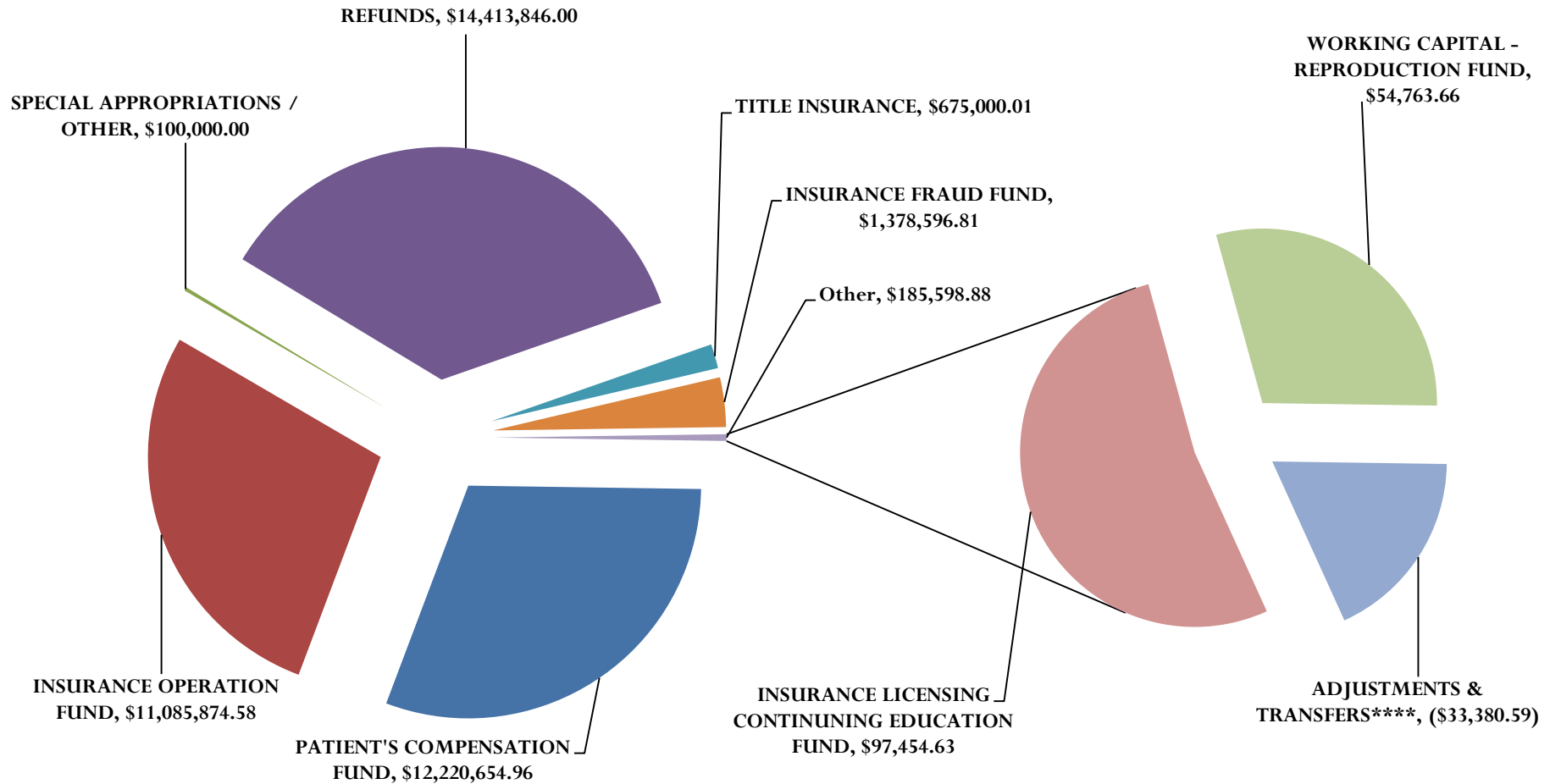
FY 2015 Distributions by OSI

(Less Refunds, Special Appropriations/Other, Adjustment & Transfers)



FY 2015 Inter-Departmental Transfers

(Less Dishonored Checks & Credits)



**** Pending Refund

Performance Measures

Measure Type	FY16 Actual	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Request	FY14 Target	FY14 Actual	FY15 Actual	FY16 Target	FY17 Request
Outcome Discontinued	Percent of employers whose workers' compensation accident frequency is reduced through counseling, advice and training.	33.00%	48.00%	62.96%	75.00%	75.00%	53.85%	51.06%	Discontinued	Discontinued
Output GAA	Percent of internal and external insurance-related grievances closed within one hundred and eighty days of filing.	100.00%	98.00%	94.72%	95.00%	98.00%	96.60%	85.59%	98.00%	98.00%
Output	Percent of producer applications, appointments and renewals processed within ten business days.	95.00%	98.00%	100.00%	98.00%	98.00%	99.92%	99.88%	99.00%	99.00%
Output	Percent of domestic company examination reports adopted within eighteen months of the examination period.	100.00%	100.00%	90.00%	100.00%	100.00%	87.50%	100.00%	100.00%	100.00%
Efficiency Discontinued	Percent of insurance fraud bureau complaints processed and recommended for either further administrative action or closure within sixty days.	81.50%	81.50%	64.13%	88.00%	88.00%	72.11%	60.33%	Discontinued	Discontinued
Output	Percent of insurance division interventions conducted with domestic insurance companies when risk-based capital is less than two hundred percent.	N/A	N/A	N/A	N/A	N/A	N/A	100.00%	100.00%	Discontinue
Output	Percent of form and rate filings processed within ninety days within the Life & Health Bureau.	N/A	N/A	N/A	N/A	N/A	N/A	96.00%	97.00%	97.00%
Output	Percent of form and rate filings processed within ninety days within the Property & Casualty Bureau.	N/A	N/A	N/A	N/A	N/A	N/A	100.00%	99.00%	99.00%
Output	Number of managed healthcare outreach activities conducted annually.	N/A	N/A	N/A	N/A	N/A	N/A	121.00	100.00	110.00
Efficiency	Percent of insurance fraud bureau complaints processed and recommended for either further criminal actions/prosecutions or closure within sixty days.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	88.00%	88.00%
Output	Percent of Office of Superintendent interventions conducted with domestic insurance companies when risk-based capital is less than two hundred percent.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	100.00%

Budget Adjustment Language

Section 5 (Special Appropriations):

- *Will request a special appropriation request of approximately \$150,000 for enhancements to our current IDEAL system and necessary work associated with transitioning from IDEAL to NAIC's State Based System. The funding source will be from other state funds (OSI).*

Section 7 (Information Technology Extensions and Reauthorizations):

- *The period of time for expending the one million two hundred fifty thousand dollars (\$1,250,000) appropriated from the insurance operations fund in Subsection 13 of Section 7 of Chapter 227 of Laws 2013 to migrate the insurance system and processes to a paperless, web-based environment is extended through fiscal year 2018.*

Additional FY 16 BAR Authority:

- *the patient's compensation program may request budget increases up to ten million dollars (\$10,000,000) from fund balances for patient's compensation expenses;*

Agency/Program Specific FY 17 BAR Authority:

- *the office of superintendent of insurance may request increases up to six percent from other state funds for any projected budget shortfall and the patient's compensation program may request budget increases up to five million dollars (\$5,000,000) from fund balances for patient's compensation expenses;*

Federally Supported Programs

- The Office of Superintendent of Insurance is the recipient of federal grants to support health insurance consumer assistance programs (HICAP) and effective health insurance rate review.
- The HICAP program provides for a Health Insurance Ombudsman and subcontractors to respond to inquiries from New Mexicans who either need assistance finding insurance that will cover them or their families, or who need information about how the Affordable Care Act (ACA) has changed what their insurers must provide. Specific complaints are referred to other areas of OSI.
- **By far the larger federally funded program is for effective rate review. Under this program, OSI plays a key role in the implementation of ACA in New Mexico:**
 - In addition to its own statutory role under New Mexico law, NM OSI serves as the primary health insurance rate reviewer implementing federal rate review regulations, e.g., heightened scrutiny for requests above 10%.
 - OSI provides an opportunity for New Mexicans to become aware of and comment on proposed rate increases and rates for new Health plans via both a website, <http://www.nmhealthratereview.com>, and extensive public outreach conducted both in-person at health fairs throughout the state and radio advertising. The website also implements the requirements of SB 208 for heightened public information about rate requests.
 - OSI led the creation of an Essential Health Benefits benchmark for New Mexico.
 - Guidelines for submission of both qualified health plans (QHPs) and dental plans meeting ACA requirements for 2014 and submission and review processes for QHPs were developed and implemented for the first time. It is notable that much of this effort had to be carried out prior to the passage of the statute creating the NMHIX and thus required substantial flexibility and initiative.
 - Through a memorandum of understanding (MOU) with the New Mexico Health Insurance Exchange (NMHIX), NMHIX serves as the body carrying out all regulatory and quasi-regulatory activity involving the health insurance exchange.
- OSI also developed the processes to certify healthcare guides needed under the ACA to provide information about new health insurance options to New Mexicans. Criminal background checks are part of OSI's process for certification, in addition to confirming successful completion of training.

Federal Grants / NMHIX MOU

- **Federal Grants**
 - **Total Number of Grants:** 4
 - **Grant Periods:** Vary from 4/1/2011 to 9/30/2016
 - **Total Grant Awards:** \$6,051,590 (Vary from 4/1/2011 to Date)
 - **Total Positions:** 17
 - **Total Positions Filled:** 11
 - **Total Vacant Positions:** 6
 - **Total Contracted Position:** 1
- **NM Health Insurance Exchange (NMHIX) MOU**
 - **MOU Period:** 4/1/2014 to 12/31/2019
 - **MOU Total Amount:** \$2,445,000
 - **MOU FY17 Budget Request Amount:** \$510,000
 - **Total Positions:** 9
 - **Total Positions Filled:** 5

Legislation Proposed for 2016 Legislative Session

PROPOSED LEGISLATION

- **General**
 - Adoption of NAIC Producer Licensing Model Act by revision of Insurance Code Articles 6, 7, 11, and 12 to allow OSI to implement a computer system which will update and modernize our licensing procedures and bring New Mexico into alignment with most other States.
 - Clean-up - miscellaneous revisions and corrections.
- **Premium Taxes - Clarify language for Paying Premium Taxes**

SUMMARY

- The agency adhered to the budget request instructions and as a newly-created adjunct state agency, ensuring the agency requested a properly funded budget in order to execute its regulatory duties imposed on it by the New Mexico Insurance Code.
- OSI is still transitioning as a new agency and discovering its true needs as a standalone agency.
- A realistic operating budget request was submitted to sufficiently cover its needs.
- OSI continues to work on revising its organizational structure and to improve OSI's functional and managerial structure which is reflected in its organizational chart. OSI is working with the State Personnel Office and the Department of Finance and Administration to hire the positions authorized last and this fiscal year, properly classify and move positions where necessary for efficient operations.
- We appreciate the opportunity to present our budget request and ask for understanding when appropriating based upon needs of a new agency, particularly with filling vacancies.
- Thank you for your consideration in reviewing and recommending a realistic budget for the Office of Superintendent of Insurance as a standalone agency that has significant regulatory, oversight and revenue collection responsibilities.